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Poultry and Products

Annual

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Report Highlights:

The Philippine Department of Agriculture has forecast broiler output to decline in 2005, due mainly to a reported decline in day-old-chick importation last year. Consumption of broiler meat is projected to contract this year due to a projected slowdown in the Philippine economy and rising retail prices of chicken. Due to the projected decline in broiler output, imports of chicken meat, particularly leg quarters, are expected to increase this year. Exports of value-added chicken products to Japan, including U.S. chicken meat that is further processed in the Philippines, have been halted since July 7 due to a reported detection of Avian Influenza in the country.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Manila [RP1]
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Production

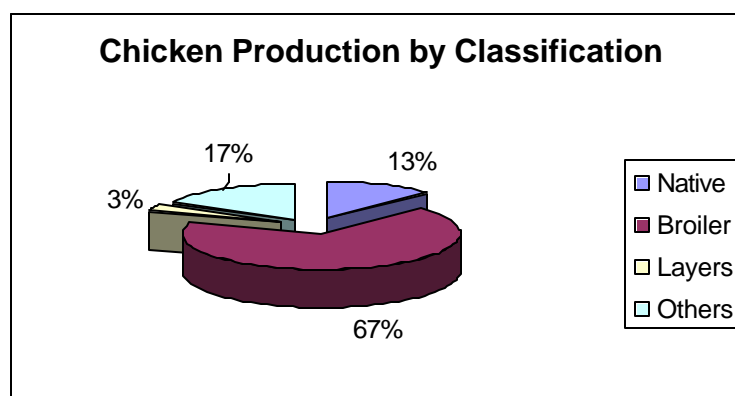
As of January 1, 2005, broiler inventory in the Philippines was estimated at 40.38 million birds, 28 percent higher than last year's 31.5 million birds. Currently 2/3 of Philippine broiler stocks are concentrated in Central Luzon (42.9%) and CALABARZON Cavite-Laguna-Batangas (23.4%).

According to the Bureau of Agricultural Statistics (BAS), the country's volume of chicken production in 2004 was 1,232 MT live weight or about 4 percent higher than the previous year's output.

CHICKEN PRODUCTION¹, 2002-04 (TMT, Live Weight Equivalent)					
	2002	2003	2004	2003/02 % change	2004/03 % change
Jan-Mar	290.84	303.74	311.56	4.4%	2.6%
Apr-Jun	219.85	229.17	226.47	4.2%	-1.2%
Jul-Sep	261.60	269.16	283.33	2.9%	5.3%
Oct-Nov	401.46	386.68	410.43	-3.7%	6.1%
Total	1173.75	1188.75	1231.79	1.3%	3.6%

Source: Bureau of Agricultural Statistics

It is estimated that broilers account for about 67 percent of total chicken produced in the Philippines. Native or village chicken production is at 13 percent while poultry meat from culled layers is estimated at 3 percent. The rest is comprised of other chicken such as roosters.



Source: Bureau of Agricultural Statistics

From 2002 to 2004, a decreasing trend in day-old-chick (DOC) and hatching egg importation was observed. Due to the oversupply of broiler meat reported in 2004 and the resulting large carryover stocks in January 2005, total DOC importation for both grandparent stock (GPS) and parent stock (PS) last year dropped significantly. PS hatching egg importation also declined in 2004. The same pattern can be observed for the first half of 2005, which may indicate a forthcoming slowdown in broiler production.

¹ Total chicken production including broilers, native, culled layers and other chicken.

Volume of Day-Old-Chick Imports 2002-04 (Number of Head)					
	2002	2003	2004	2003/02 % change	2004/03 % change
GPS	226,658	405,779	225,867	79.0	(44.3)
PS	1,681,593	695,230	261,610	(58.7)	(62.4)
Hatching Eggs	45,360	605,960	199,800	1,236.0	(67.0)

Source: Bureau of Agricultural Statistics

Recently, the Bureau of Animal Industry (BAI) and BAS, in cooperation with the domestic broiler industry, projected a decline of up to 6 percent in broiler production in 2005, mainly as a reaction to the reported oversupply in broiler meat during last half of 2004 and the subsequent large carryover stocks of dressed chicken for 2005. According to the Philippine Association of Broiler Integrators, the industry experienced its highest-ever frozen inventory at 11,000 MT in November 2004, ending the year with a carryover inventory of 4,200 MT.

BROILER PRODUCTION, 2003-05 (Number of Head)					
	2003	2004	2005 ²	2004/03 % change	2005/04 % change
Jan-Mar	114,571	118,480	119,213	3.41	0.62
Apr-Jun	113,760	125,396	120,728	10.23	(3.72)
Jul-Sep	121,385	124,523	114,848	2.58	(7.77)
Oct-Dec	123,391	125,318	109,095	1.56	(12.95)
Total	473,107	493,717	463,884	4.36	(6.04)
Total ³					
DWE (MT)	567,728	592,459	556,660	4.36	(6.04)

Source: BAI/BAS Forecasting Team

Post's broiler production numbers are reported in dressed weight equivalent (DWE) and reflect BAS dressed chicken production volume as reported in its Annual Industry Performance Report Supply and Utilization Accounts. Total PSD production numbers represent output as reported by the National Meat Inspection Service (NMIS). Output was derived from consolidated reports of NMIS-regulated dressing plants and on-farm dressing facilities, which include a small percentage of native chicken and culled layers. As such, Post projects a less substantial decline in 2005 broiler production due to possible positive interventions by integrators and some growth in the native chicken and layer sector. In 2004, total supply of table eggs went up nearly 8 percent as a result of high prices and strong demand.

Average farm prices in backyard farms for 2004 was recorded at P72.24/kg or 16.5 percent higher than the previous year's average. The highest farmgate price in 2004 was recorded at P77.01/kg in September. In August 2005, average farmgate price of chicken was at P60-64/kg, lower than that recorded during the same month last year.

² Forecast

³ DWE = Head x 1.2 kg

Farmgate Prices Table			
Country	Philippines		
Commodity	Poultry, Meat, Broiler		
Prices in	Pesos	per uom	Kilogram
Year	2003	2004	% Change
Jan	60.53	67.65	12
Feb	64.45	73.37	14
Mar	50.77	72.92	44
Apr	53.76	72.38	35
May	55.55	71.09	28
Jun	65.84	67.81	3
Jul	62.29	74.30	19
Aug	56.89	72.58	28
Sep	65.09	77.01	18
Oct	61.34	71.41	16
Nov	72.24	73.23	1
Dec	90.36	73.13	-19
Avg.	62.00	72.24	16

Source: Bureau of Agricultural Statistics

According to traders, unlike 2004, yellow corn and soybean meal (SBM) prices have remained relatively stable throughout 2005 due to ample supply.

PHILIPPINE CORN PRODUCTION AND PRICES		
YEAR	VOLUME (MMT)	AVG. YELLOW CORN PRICES (Pesos/kg)
2001	4.5	8.63
2002	4.3	8.21
2003	4.6	8.62
2004	5.6	10.35
2005	5.3 ⁴	8.99 ⁵

Source: Philippine Department of Agriculture

Despite lower SBM prices, smaller quantities of SBM were imported last year and reduced imports are forecast for this year, which indicates a possible slowdown in livestock and poultry production. The Philippines does not produce any soybeans, and, with the exception of a few crushing facilities, the country relies almost entirely on imports for its SBM requirements.

YEAR	SOYBEAN MEAL IMPORTS (MT)	SOYBEAN IMPORTS (MT)	US Soybean Meal FOB Prices (\$/kg)
2001	1,061	316	0.18
2002	1,291	264	0.19
2003	1,251	289	0.19
2004	1,160	284	0.25
2005 ⁶	318	51	0.20

Source: Philippine National Statistics Office

⁴ Forecast

⁵ January to May 2005 only

⁶ January to April 2005 only

According to a study produced by the Livestock Development Council (LDC), the supply chain structure of the broiler industry in the ASEAN region is largely determined by its degree of integration. Big corporations that are fully integrated dominate the output of the industry. The smaller non-integrated companies usually focus their operations on a particular aspect of the supply chain such as providing contract services to breeding, hatchery, growing and dressing. Other firms raise chicken independently while securing critical inputs such as DOCs, feed and medicine from integrators.

In the Philippines, the supply chain is split between integrators (65 percent) and non-integrators or independent producers (35 percent). The integrators have control of GP farms, contract breeders, contract hatcheries, contract growers and contract dressing to the wholesale market. Independent producers purchase their feed and DOCs from other companies and usually sell their output to middlemen or traders and dressing plants.

The domestic feed grain sector is a major supporter of the broiler industry, similar to the hog industry. The feed milling industry has its own supply chain, sourcing out its raw materials from domestic and external sources.

In terms of technical production parameters, the Philippines has an average feed conversion ratio (FCR) of 2.0. Live birds are normally sold at 1.8 kilograms per bird in the Philippines. Trade contacts have reported a recent growing demand for larger birds (1.5 to 2.0 kg) specifically by the wet markets, which currently sell more chicken cuts than whole birds. At present, about 70 percent of local production still goes to the wet market with the rest divided among food chains, supermarkets, hotels and restaurants.

Consumption

The National Economic Development Authority (NEDA) still forecasts GDP to grow at 5.3 percent in 2005 despite record high world oil prices. According to several analysts, GDP growth in 2005 is expected slowdown to about 5 percent in 2004 from 6.1 percent last year, due to projected weak agricultural growth, sluggish exports and high oil prices. Moreover, new taxes such as the Expanded Value Added Tax and additional excise taxes are most likely to dampen consumer spending. However, remittance from overseas Filipino workers is expected to augment consumer spending.

Total consumption of chicken meat is forecast to decline marginally in 2005 due to the projected slowdown in the Philippine economy. With a projected decline in broiler production in 2005, consumer demand for broiler meat is expected to exceed domestic production, and importation is likely to continue to fill in the gap. As one of the less expensive forms of protein, chicken meat continues to be popular among Filipino consumers. The current high prices of pork and beef may encourage consumers to shift to relatively lower priced protein substitutes such as chicken and fish.

Retail Prices Table			
Country	Philippines		
Commodity	Poultry, Meat, Broiler		
Prices in	Pesos	per uom	Kilogram
Year	2003	2004	% Change
Jan	82.25	113.10	38
Feb	80.67	92.81	15
Mar	80.50	85.32	6
Apr	83.17	94.03	13

May	84.83	105.64	25
Jun	89.16	99.09	11
Jul	89.01	98.43	11
Aug	87.39	99.72	14
Sep	85.80	95.04	11
Oct	89.43	94.69	6
Nov	95.48	93.94	-2
Dec	107.20	98.38	-8
Avg.	87.91	98.27	12

Source: Bureau of Agricultural Statistics

Philippine chicken consumption is relatively low at about 8.20 kilograms per capita compared to Asian countries such Thailand (13.52) and Malaysia (37.59 kg). Traditionally, Philippine demand for chicken generally increases during election years and over the Christmas/New Year holidays, which explains the increase in consumption reported last year.

Philippine Per capita Chicken Consumption (in kilograms)	
2002	8.04
2003	8.00
2004	8.20

Source: Bureau of Agricultural Statistics

A recent study (Yanson, 2005) on the Philippine broiler industry revealed that a one percent increase in personal consumption expenditure would increase broiler demand by 0.51 percent. A rise of one percent in the retail price of beef will trigger an increase in demand for broiler meat by 1.18 percent. However, for every one percent increase in the retail price of dressed chicken, demand for broilers will drop by 0.43 percent.

Trade

Imports of broiler meat are forecast to increase in 2005 to meet the expected shortfall in chicken production in the last quarter of the year. From January to April 2005, imports of chicken cuts and offals were forty percent higher than for the same period last year. In the past, the Philippine DA has limited poultry imports through the Minimum Access Volume (MAV) scheme where only quota-holders are allowed to import frozen and chilled poultry meat into the country.

National Statistics Office (NSO) data indicate that total imports of chicken cuts increased significantly in 2004. Chicken cuts and offals, mostly chicken leg quarters, continue to represent about 76 percent of total Philippine poultry imports. The United States (64%) and Canada (23%) are the main sources of imported chicken cuts in the Philippines, which is mostly used by the fastfood industry. Turkey imports have been steadily increasing, growing by 31 percent in 2004. It is reported that a large portion of turkey imports are Mechanically Deboned Turkey (MDT), used mainly by the large food processors for hotdogs, sausages, etc.

Philippine imports of processed chicken and turkey products are likely to increase, particularly from other ASEAN countries due to the low Common Effective Preferential Tariff (CEPT) of 5 percent accorded them compared to the 40 percent applied rate levied on products from other countries. However, current bans on imports from most ASEAN

countries (e.g., Thailand, Vietnam, Malaysia) due to the detection of Avian Influenza (AI) in those countries will likely temper this growth in the near term.

The Philippine DA has confirmed that the country remains free of Highly Pathogenic Avian Influenza (HPAI). Last year, a few local and foreign food manufacturing companies began exporting processed poultry products, particularly skewered chicken yakitori sticks, to Japan. Japanese trading companies have been working with Philippine companies to ensure strict Japanese specifications are met. (see Policy Section)

For the first six months of this year the Philippines exported about 3,000 MT of poultry products, mainly value-added processed chicken products to Japan, which is the country's largest overseas market for poultry products. Year-to-date, Philippine poultry exports are already three times the volume exported in 2004.

Policy

Avian Influenza: On July 7, 2005, BAI announced the detection of an AI strain in a few ducks in a farm in Calumpit, Bulacan, north of Metro Manila. According to BAI, the "low-risk" flu strain was detected following routine tests done on blood samples collected by BAI from the Bulacan duck farm which had applied for certification to export "balut" or exotic duck egg.

The BAI and the Department of Health (DOH) immediately implemented various control measures which included the immediate culling of the affected flocks, the temporary ban of movement and sale of live poultry within a three kilometer radius of the affected farm for one week and sustained surveillance and testing of all poultry farms in nearby areas. Moreover, BAI stopped all exports of poultry and poultry products. Following the reports of the AI detection, Japan immediately placed a temporary ban on the import of all poultry products from the Philippines.

Further testing by the Australian Animal Health Laboratory, which serves as the Office International des Epizooties' (OIE) regional reference laboratory for avian influenza, found exposure to a low pathogenic avian influenza (LPAI) virus of the H5, H7 or H9 subtypes in the duck samples.

As a result, the Japanese government continues to suspend all imports of poultry and poultry products from the Philippines, including U.S. chicken meat that is further processed in the Philippines, expressing concern that the H5 and H7 virus subtypes could mutate to HPAI. Japan has said it will lift the import suspension only 90 days after the confirmation that the Philippines is free from HPAI and completion of the cleaning and disinfection of the infected establishments.

Minimum Access Volumes: Earlier this year DA sought the opinion of the Department of Justice (DOJ) on the expiration of the Minimum Access Volumes (MAV) and the Agricultural Competitiveness Enhancement Fund (ACEF). In June 2005, DOJ ruled that DA may continue implementing the MAV. DOJ stated that the WTO Agreement on Agriculture, Republic Act 8178 (Agricultural Tariffication Act) and various DA Administrative Orders governing MAV do not provide any time limit for the application of the two programs.

In the absence of a new multilateral trade agreement, DOJ further ruled that the level of the MAV on the 10th year would stand as the member country's commitment to its WTO obligations. Moreover, based on the WTO Agreement on Agriculture (AoA) schedules adopted for each member country, importation in excess of the specified MAV would be allowed provided the higher out-of-quota tariff rate is paid.

In January 2005, the DA distributed approximately 45 percent or 10,374 MT of the Philippines' 9th year MAV allocations for poultry. To complete the 2005 volumes, DA issued the remaining 55 percent of the 2004/9th year MAV allocations to current quota holders based on their existing shares. Moreover, the required incremental quota increase of 860 MT of fresh/frozen poultry for the 10th year was made open to all qualified applicants based on existing DA Administrative Order Nos. 8 (1997) and 52 (2002).

Since 2002, the GRP has imposed a special safeguard duty on several lines of chicken and chicken products, which doubles the effective rate of protection for all out-of-quota imports of the said products. All in-quota imports of chicken under MAV, consistent with the WTO AoA, will continue to be exempt from application of SSG.

In July 2005, during its regular bilateral US-RP Trade and Investment Council Meeting, the Philippines confirmed to the USG that it would not subject in-quota imports of poultry to special safeguard duties. This ensures continued U.S. access to the Philippine poultry market, the second largest in Southeast Asia.

Last year, fresh, chilled and frozen poultry meat Minimum Access Volume (MAV) utilization was 92 percent. The annual MAV use for poultry meat for the last three years has averaged about 91 percent. With the exception of the 5,000 MT special importation of chicken in 2004, practically all of the country's poultry meat imports fall under the MAV.

MAV UTILIZATION RATE 2001-2003							
HS Code	Description	2002 MAV (MT)	Percent Used	2003 MAV (MT)	Percent Used	2004 MAV (MT)	Percent Used
0207	Fresh/ Chilled/ Frozen Poultry	20,879	86	21,923	95	21,038	92

Source: MAV Management Committee

Tariff Policy: The 2005 MFN and Common Effective Preferential Tariff (CEPT) rates for ASEAN countries for all poultry and poultry products follow:

2005 TARIFFS FOR POULTRY AND POULTRY PRODUCTS						
HS Code	Description	MFN		CEPT		Remarks ⁷
		In-quota	Out-quota	In-quota	Out-quota	
Poultry - Fresh, Chilled or Frozen, Dried or Smoked						
	Of fowls of the species Gallus domesticus					
0207.11.00	Not cut in pieces, fresh or chilled	40	40	40	40	All ASEAN
0207.12.00	Not cut in pieces, frozen	40	40	40	40	All ASEAN
0207.13.00	Cuts & offal, fresh or chilled	40	40	40	40	All ASEAN
0207.14.00	Cuts & offal, frozen	40	40	40	40	All ASEAN
	Turkey					
0207.24.00	Not cut in pieces, fresh or chilled	40	40	5	5	All ASEAN
0207.25.00	Not cut in pieces, frozen	30	35	5	5	All ASEAN
0207.26.00	Cuts & offal, fresh or chilled	40	40	5	5	All ASEAN
0207.27.00	Cuts & offal, frozen					All ASEAN
0207.27.10	Livers	40	40	40	40	All ASEAN
0207.27.90	Others	30	40	30	40	All ASEAN

⁷ All ASEAN members may avail of Common Effective Preferential Tariff (CEPT); KH-Cambodia, LA-Laos, VN-Vietnam

HS Code	Description	2005		Remarks ⁸
		Applied Rates	CEPT	
Poultry – Dried				
0210.99.10	Freeze-dried chicken, diced	3	5	All ASEAN members
Poultry – Processed				
1601.00.19	Sausages, Other	40	5	except KH & VN
1602.31.00	Prepared or preserved meat of turkey	40	5	except KH, LA & VN
1602.32.00	Prepared or preserved meat of chicken	40	5	except KH, LA & VN

Source: 2004 Tariff & Customs Code of the Philippines

Marketing

At present, four major integrators are supplying the bulk of the Philippine market with poultry and poultry products: San Miguel Foods, Inc., Tyson Agro-Ventures, Swift Foods, Inc. and Universal Robina Corporation. These integrators are said to supply about 65 percent of total demand, while non-integrators and other commercial growers supply the remaining 35 percent. The integrated poultry operation consists of the core live bird operations which extends up to the production of dressed broiler, cut-up chicken meat, up to further processing of value-added products.

Non-integrated operations are primarily recipients of DOC-broiler for grow-out. The capacities of commercial grow-out farms range from 24,000 birds to 600,000 birds. These growers market their produce as live birds through market intermediaries called “viajeros.” Commercial growers are the main market of PS breeders in the country. In terms of broiler output, nearly all of their produce is channeled mainly to the wet markets and small retailers primarily throughout Metro Manila and other nearby cities. Broilers sold in wet markets are dressed in the market place or dressing areas near the market place (Yanson, 2005)

According to the University of Asia and the Pacific, the Philippine poultry market is composed of the food service and the household sector, each with distinct product preferences. The fastfood chains require volume delivery, mainly marinated parts and is very particular about product specifications, value, quality and reliability. Hotels, restaurants and other institutional buyers require whole chickens and have more variable pricing against the relatively stable prices of fastfood chains.

Wet markets still provide the majority of daily household requirements, offering both whole chicken and parts, although households are increasingly buying from supermarkets and hypermarkets. While the emerging Philippine retail sector is increasing its role in supplying fresh and frozen poultry meats to consumers, it is estimated that currently only about 10 percent is being sold at the supermarket level. Based on the latest Annual Poverty Indicator Survey (2003, APIS), refrigeration in Philippine households stands at only 10 percent and thus fresh meats are cooked very soon after purchase.

The Philippine poultry industry is expected to remain highly viable with value-added chicken products having a large potential for expansion. There are a number of both imported and domestically produced processed chicken products now available in the market (i.e., nuggets, hotdogs, Vienna sausages, marinated chicken, etc.). Additionally, a growing segment of consumers is turning to alternatives to higher priced red meats, which may spur demand for chicken and turkey products.

The Philippines is in the process of applying for International Halal Certification that would allow it to penetrate ASEAN and Middle East export markets. The private-sector-led Philippine Halal Food Development Program (PHFDP) is encouraging Halal food processors to acquire certification from the Office of Muslim Affairs (OMA) of the Philippine government. PHFDP hopes that the establishment of international Halal linkages and networking will boost the country's export potential. Food manufacturing and processing giants such as San Miguel Foods, Tysons Agro-ventures and Swifts Foods have reportedly adopted Halal methods in their food processing for both domestic and international markets. The Muslim Business Forum has estimated the global Halal market to be worth at least \$80 billion a year.

PSD Table						
Country	Philippines					
Commodity	Poultry, Meat, Broiler				(1000 MT) (MIL HEAD)	
	Revised	2004	Estimate	2005	Forecast	2006
	Old	New	Old	New	Old	New
Market Year Begin		01/2004		01/2005		01/2006
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	4	0	0
Production	660	659	679	647	0	662
Whole, Imports	0	0	0	0	0	0
Parts, Imports	10	21	15	23	0	24
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	10	21	15	23	0	24
TOTAL SUPPLY	670	680	694	674	0	686
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	1	0	3	0	4
TOTAL Exports	0	0	0	0	0	0
Human Consumption	661	667	685	665	0	677
Other Use, Losses	9	9	9	9	0	9
Total Dom. Consumption	670	676	694	674	0	686
TOTAL Use	670	676	694	674	0	686
Ending Stocks	0	4	0	0	0	0
TOTAL DISTRIBUTION	670	680	694	674	0	686
Calendar Yr. Imp. from U.S.	8	15	10	18	0	18